Interprovincial Pipe Line Limited

Annual Report 1974

Corporate Information

EXECUTIVE OFFICE
7 King Street East, Toronto, Ontario M5C 1A2

HEAD OFFICE AND OPERATING HEADQUARTERS
10015-103 Avenue, Edmonton, Alberta
T5J 2J9

STOCK TRANSFER AGENTS
The Royal Trust Company—Toronto, Montreal, Halifax, Winnipeg, Regina, Edmonton, Vancouver

Chemical Bank, New York

(Change of address should be sent to the closest branch of the Transfer Agents)

STOCK REGISTRARS
Montreal Trust Company—Toronto, Montreal, Halifax, Winnipeg, Regina, Edmonton, Vancouver

Bank of Montreal Trust Company, New York

DIVIDEND DISBURSING AGENT
The Royal Trust Company—
P.O. Box 7500, Postal Station 'A', Toronto, Ontario M5W 1P9

Annual Meeting

2.30 p.m. Wednesday, April 9, 1975,
Confederation Room, Royal York Hotel,
100 Front Street West, Toronto.

The Notice of Meeting, Information Circular and form of Proxy are being mailed with this report to all shareholders of record on March 19, 1975.

Cover Picture

Edmonton Tank Farm at dusk.

Interprovincial Pipe Line Limited

Annual Report 1974

(Incorporated by Special Act of the Parliament of Canada, April 30, 1949 and continued by Letters Patent August 1, 1973)

Directors

LORENZ P. BLASER
Senior Vice-President,
Gulf Oil Canada Limited, Toronto

JERRY A. COGAN
Senior Vice-President & Director,
Imperial Oil Limited, Toronto

C. WILLIAM DANIEL
President & Director,
Shell Canada Limited, Toronto

JOHN H. HAMLIN
Senior Vice-President & Director
Imperial Oil Limited, Toronto

A. HAZLETT LEMMON
Chairman of the Board,
The Canada Life Assurance Company,
Toronto

JAMES G. LIVINGSTONE
Senior Vice-President & Director,
Imperial Oil Limited, Toronto

C. EDWARD MEDLAND
President & Director,
Wood Gundy Limited, Toronto

RALPH D. PARKER
Retired, former consultant to
The International Nickel Company
of Canada, Limited, Toronto

W. HAROLD REA
Chairman of the Board,
Great Canadian Oil Sands Limited, Toronto

DAVID G. WALDON
President,
Interprovincial Pipe Line Limited, Toronto

GORDON D. deS. WOTHERSPOON
Chairman of the Board,
Eaton Financial Services Limited, Toronto

Officers

DAVID G. WALDON
President

JAMES G. LIVINGSTONE
Vice-President

ROBERT K. HEULE
Vice-President & General Manager

JOHN BLIGHT
Vice-President & Treasurer

E. GORDON SHEASBY
General Counsel & Secretary

FREDERICK B. NEWTON
Assistant Treasurer & Assistant Secretary

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Highlights

Financial

	1974	1973	Percentage Increase (Decrease)
Transportation revenue	$192,944,000	$202,831,000	(5%)
Other income	$ 2,074,000	$ 2,461,000	
Expenses, excluding taxes	$107,648,000	$ 96,058,000	12%
Income and other taxes	$ 51,785,000	$ 61,449,000	(16%)
Earnings	$ 35,585,000	$ 47,785,000	(26%)
per share	$1.39	$1.87	
Dividends	$ 30,688,000	$ 28,127,000	9%
per share	$1.20	$1.10	
Capital expenditures	$ 31,192,000	$ 94,056,000	

Statistical

	1974	1973	Percentage Increase (Decrease)
Deliveries (barrels per day)			
By Quarters			
First	1,339,580	1,435,480	
Second	1,330,697	1,349,836	
Third	1,275,980	1,344,704	
Fourth	1,283,014	1,380,603	
Yearly average	1,307,077	1,377,415	(5%)
Highest month	1,404,957	1,466,989	
Lowest month	1,216,428	1,321,080	
Barrel miles (millions)	668,864	707,037	(5%)
Number of employees—December 31	751	730	

Directors' Report to Shareholders:

Refinery at Montreal

1974 was a difficult year for Interprovincial. Deliveries of crude oil, natural gas liquids and refined products in Western Canada and Ontario were higher than in 1973 but this increase was more than offset by reduced deliveries in the United States. The net result was that, after 24 years of continuous growth, total throughput was some 5% less than in 1973 at 477 million barrels, equivalent to 1,307,077 barrels per day.

The reduction in deliveries to United States refineries was due initially to export controls dictated by production limitations—and later in the year to a generally reduced demand for oil and the \$5.20 per barrel Canadian export tax. Trans-shipments of crude from Sarnia and Toronto to Montreal and Quebec City by lake tanker averaged only 24,000 barrels per day.

The ensuing decrease in operating revenue, combined with greatly increased costs—particularly power and fuel in the United States—and the 10% corporate surtax in Canada, resulted in earnings being 26% lower than in 1973.

To better cope with rising costs in the geographical areas in which they occur, separate tariffs were established for Canadian operations (Interprovincial) and United States operations (Lakehead), and on September 1, 1974 Lakehead's rates were increased by amounts up to 4¢ per barrel. This increase has proven inadequate, however, and it is now proposed to increase the Lakehead tariffs by a further maximum of 4¢ per barrel, effective April 1, 1975. Because of increased costs in Ontario, it is also proposed to increase the Interprovincial portion of the joint tariffs to the Toronto area by 2¢ per barrel and to Buffalo by 3¢ per barrel, effective the same date. In addition, allowance oil is being reintroduced at the rate of 1/10th of 1% of all receipts, to cover the increasing cost of oil unavoidably lost in transportation through evaporation and shrinkage.

Lakehead Pipe Line Co.
U.S. se opers.

The National Energy Board has been briefed on our reasons for increasing tariffs and on March 1 the revised tariff schedules were filed with the Board in Ottawa, and the Interstate Commerce Commission in Washington, as appropriate. The new rates are shown on page 6.

The past year has also been a frustrating year in that, in addition to the delays in connection with the Montreal Extension, we have not been able to get on with two other major projects. These projects are, the proposed refined products terminal at Superior, Wisconsin, and the first step in upgrading and increasing the capacity of Line No. 2 as far as Superior to accommodate high vapour pressure natural gas liquids.

The status of the Sarnia to Montreal Extension is that the Government of Canada has agreed to furnish us with the Deficiency Agreement we require, subject to the approval of Parliament, and it now appears that we will be able to get on with our Hearing before the National Energy Board—and construction of the line.

When the National Energy Board report on the availability and disposition of Canadian crude, formally known as Report to the Honourable Minister of Energy, Mines and Resources, "In the Matter of the Exportation of Oil", confirmed our concern about supply, the Federal Government was informed that we would not be able to finance the extension without Government assistance. Our concern was, and still is, that if the predicted lower levels of production and higher demand for oil West of the Ottawa Valley materialize, the line might not be utilized for extended periods commencing in the early 1980's, except in times of emergency.

To enable us to raise the necessary money and at the same time protect our shareholders, it was determined that what is required is a Deficiency Agreement whereby in any year for twenty years that the operating revenue in respect of the extension is not sufficient to meet the fixed costs of the extension, the Government would make up the shortfall.

These costs are interest on the borrowed funds, depreciation, property and other

miscellaneous taxes, and fixed operating expenses. Under the terms of the proposed agreement Interprovincial will grant an option to the Government to purchase the extension at its net book value plus related expenses but this option is exercisable only if a deficiency payment has been made or it is agreed that a deficiency will occur.

Assuming that Parliamentary approval is forthcoming in March, our hearing before the National Energy Board could resume early in April and it is still possible that the line could be in operation by the end of 1976. The cost of the 520-mile 30-inch line with five pumping stations and an initial capacity of 350,000 b/d is now estimated at $185 million, all of which will be financed by additional borrowings, details of which have not yet been determined. Initial throughput is expected to be 250,000 b/d. Fully powered with 16 pumping stations, the capacity of the line would be in the neighbourhood of 690,000 b/d. The line will also be reversible.

In its aforementioned report the National Energy Board recommended continuing exports to the United States but at a reduced rate from what was being licensed, tied to a ten-year forecast of supply and estimated Canadian demand, that would be updated annually. The Board found that, in the absence of major discoveries, the exportable surplus would disappear in 7.3 years from January 1, 1975. Therefore, the allowable level of exports in 1975 should be 73% of the exportable surplus, which works out to 653,000 b/d. To this was added part of the 250,000 b/d reserved for Montreal, for a total of 800,000 b/d. The Government immediately indicated its concurrence in the recommendation but is considering permitting the extra 147,000 b/d to be exported only until July 1, 1975.

As regards the refined products terminal at Superior, after Lakehead had appeared to have satisfied the stringent environmental requirements of both the Wisconsin authorities and the U.S. Army Corps of Engineers, in early February the Corps decided that it should prepare its own environmental impact statement. The earliest the facilities can now be in operation is late 1976.

In the case of modifications to Line No. 2, this work has been deferred until the new regulations for oil pipe lines being proposed by the National Energy Board are finalized. If the regulations are enacted as presently written, it is possible that upgrading of the line to accommodate high vapour pressure material will prove too costly and other alternatives will be further investigated.

Having completed its research program on an oil pipe line from the North Slope of Alaska to Edmonton, Mackenzie Valley Pipe Line Research Limited is in the process of being dissolved. In December 1974, Interprovincial joined with Gulf Oil Canada Limited, Imperial Oil Limited, Shell Canada Limited, and Trans Mountain Pipe Line Company, Ltd. in forming Beaufort-Delta Oil Project Limited. The purpose of the new company is to study an oil line out of the Beaufort Sea area to Edmonton, up to and including the preparation of the material required for an application to the National Energy Board, and other regulatory authorities, to construct the line.

Financial Review

The consolidated Financial Statements and the Notes appearing on Pages 12 through 19 includes the accounts of Interprovincial Pipe Line Limited and its subsidiaries, all of which are wholly owned. These are Lakehead Pipe Line Company, Inc., which owns and operates the portion of the pipe line system in the United States, and its subsidiary, Pipe Line Service Company, Inc., which owns Lakehead's aircraft and radio communication system.

Edmonton Station and Tank Farm—1950

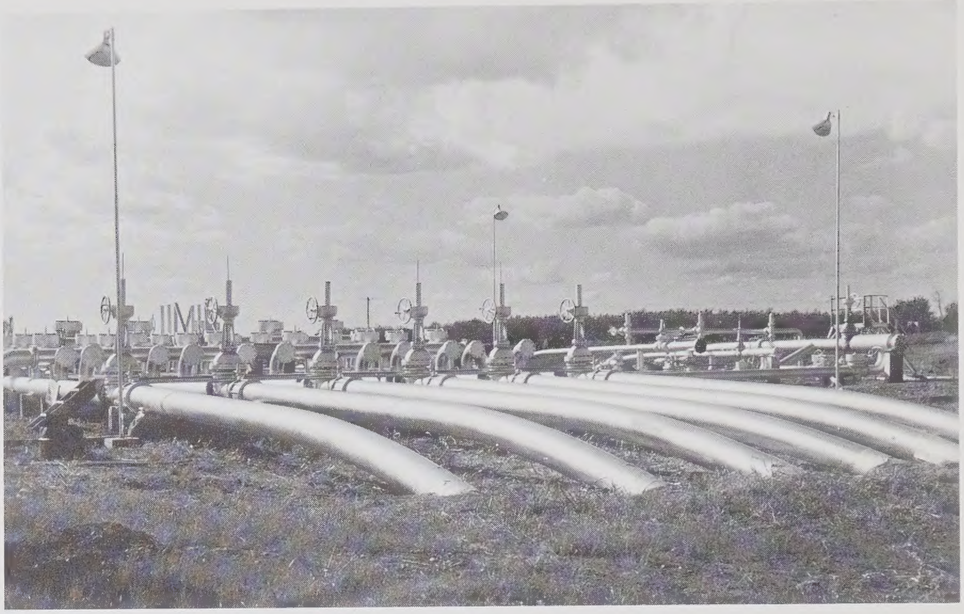
Edmonton Station and Tank Farm—1974

Income and Expenses

Both deliveries and throughput in terms of barrel miles were 5% lower than in 1973. Transportation revenue also declined 5% to $192.9 million. The 22% reduction in deliveries in the United States, due to export controls and generally reduced demand, was responsible for the decline in transportation revenue. Other income at $2.1 million was slightly lower than in 1973.

Despite a decline in horsepower requirements due to lower throughputs, power and fuel costs of $31.6 million were 3% more than in 1973. Higher unit costs were entirely responsible for the increase with electric power costs rising an average of 12% in Canada in 1974 and 28% in the United States. Other operating expenses of $27.9 million were higher by $5.4 million principally due to increased salaries and related benefits and the higher unit cost of oil lost in transportation largely through evaporation.

Property and other taxes continued to rise as a result of additions to the pipe line system and higher mill rates. Depreciation and interest expense increased in 1974 largely as a result of the $94 million expansion program carried out in 1973. The 10% Canadian corporate surtax resulted in additional income taxes in 1974 of $1.2 million, or approximately 5¢ per share.



Edmonton Manifold—1951

Edmonton Manifold—1974

Earnings and Dividends

Earnings for the year were $35.6 million, a decrease of $12.2 million or 26%. Earnings per share were $1.39 compared with $1.87 in the previous year.

Dividends of $1.20 per share in 1974 totalled $30.7 million equal to 86% of earnings. This compares with dividends of $1.10 per share, or $28.1 million and 59% of 1973 earnings.

Tariffs

Interprovincial and Lakehead are engaged exclusively in the transportation of crude oil, natural gas liquids and refined petroleum products by pipe line at established tariffs. As mentioned earlier in this report, effective September 1, 1974 the Lakehead tariffs were increased by up to 4 cents per barrel and effective April 1, 1975 Lakehead will be increasing its tariffs up to a further 4 cents per barrel. In addition, on the same date it is proposed to increase Interprovincial's portion of joint tariffs to Toronto by 2 cents per barrel and to Buffalo by 3 cents per barrel. Allowance oil is also being reintroduced at the rate of 1/10th of 1% of all receipts.

The proposed new total rates from the two main receiving points to the principal delivery points effective April 1, 1975 are as follows:

	Rates for light crudes Cents per barrel From	
To	Edmonton	Cromer
Regina	18.7¢	— ¢
Gretna	27.8	10.3
Clearbrook	33.5	20.0
Superior	39.5	26.0
Chicago	52.0	38.5
Sarnia	55.0	41.5
Toronto area	60.0	46.5
Buffalo	63.0	49.5

The rates for heavier crudes, natural gas liquids, and refined products are slightly higher.

Operations

The total volume of petroleum received and delivered by the pipe line system during the year was as follows:

Receipts— (thousands of barrels per day)	1974	1973
Alberta - - - -	1,059.7	1,135.0
Saskatchewan - -	193.0	217.4
Manitoba - - -	13.2	14.2
Ontario - - - -	0.8	4.2
United States - -	42.2	11.1
	1,308.9	1,381.9

Gauging a tank—1951

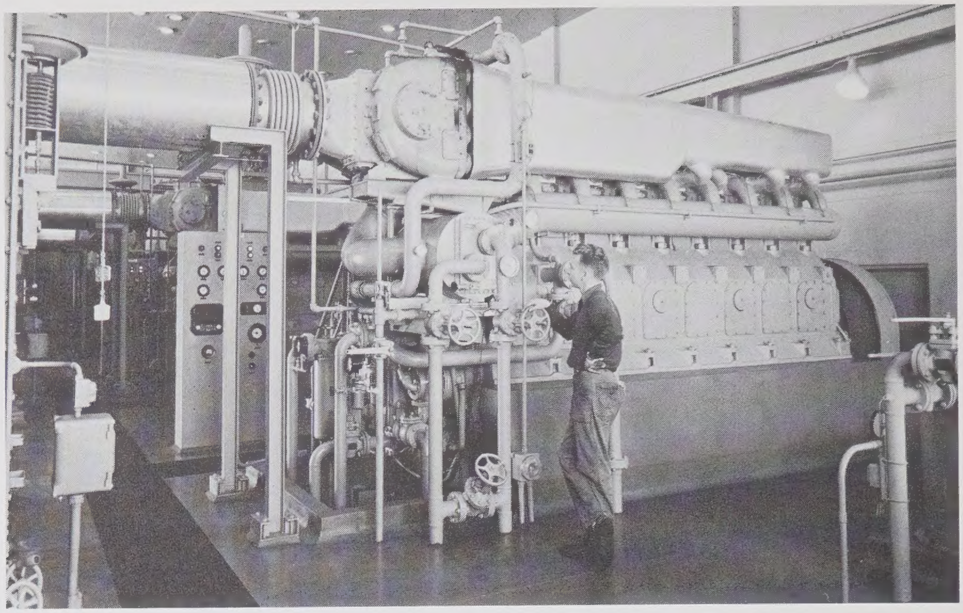
Gauging a tank—1974

Deliveries—by location

(thousands of barrels per day)	1974	1973
Canada		
Western Canada -	155.8	147.0
Ontario - - -	524.8	467.9
	680.6	614.9
United States		
Canadian Oil		
Minnesota-Wisconsin -	169.4	195.5
Illinois-Indiana	164.4	229.3
Michigan-Ohio	156.1	200.4
New York-Pennsylvania	95.7	126.0
	585.6	751.2
U.S. Domestic and Offshore Oil		
Michigan-Ohio	9.0	0.6
New York-Pennsylvania	31.9	10.7
	40.9	11.3
	1,307.1	1,377.4

Deliveries—by type

(thousands of barrels per day)	1974	1973
CRUDE OIL		
Conventional -	1,111.0	1,179.5
Oil Sands - -	41.3	42.4
NATURAL GAS LIQUIDS		
Condensate - -	77.2	85.9
Propane/butane/condensate mix - - -	50.7	43.4
REFINED PRODUCTS -	26.9	26.2
	1,307.1	1,377.4



2000 H.P. Diesel Engine

2500 H.P. Electric Motors

Construction

1974 Review

Capital expenditures in 1974 totalled \$31.2 million. Included in this amount is \$6.4 million expended on the proposed Sarnia to Montreal extension, \$4.8 million on land and materials for the refined products terminal at Superior and \$6.4 million for materials originally required for Line No. 2 modification.

The installation of 21 electric pumping units, totalling 46,250 horsepower, on the Chicago to Sarnia section of the system is on schedule and will be completed in the second half of 1975. Looping in this section will probably be deferred until 1976.

In order to be in a position to proceed with looping of the 30-inch line between Chicago and Sarnia in 1976, acquisition of second line rights was begun in 1974. This future line looping will be required to provide capacity in this section for the proposed Montreal Extension as well as the Petrosar plant at Sarnia and the new refinery to be constructed at Nanticoke, Ontario.

1975 Forecast

Apart from the proposed extension to Montreal, new projects in 1975 are now estimated at \$5 million. The principal items are the 20-inch crossings of the Welland River and the Welland Canal and the intervening 3 miles of pipe line, on the Buffalo ex-

tension, which were started in January 1975. Other items are three 2,000 horsepower electric pumping units being installed at Westover, Ontario and improvements to the piping and booster pump facilities at tank farms in the system.

The crossings of the East and West Niagara Rivers, referred to in the Third Quarterly Report, estimated at $5 million, are being deferred until more is known about the expansion plans of the Buffalo area refineries.

Total capital expenditures, including funds to complete projects carried forward from previous years, but excluding the Montreal Extension, are expected to reach $21 million. Included in the latter amount are the funds required to purchase approximately 29 miles of new right-of-way for a 16-inch line from a point on the Buffalo extension near Westover to the proposed new 95,000 barrel per day refinery at Nanticoke, Ontario. The line itself will be constructed in late 1976 or early 1977.

The amount of work on the Montreal Extension that will be completed in 1975 depends on the issuance of the required Certificate of Public Convenience and Necessity by the National Energy Board and how promptly the acquisition of right-of-way can be completed. Manufacture of the pipe commenced in November 1974 under a three-party agreement involving the Canadian Commercial Corporation on behalf of the Canadian Government and is expected to be completed by mid-July 1975. It is anticipated that at least the major river crossings will be commenced in 1975 and hopefully main line construction as well. Therefore, expenditures on the project in 1975 could total $115 million.

General

Mr. J. F. Bookout resigned from the Board of Directors in July and was replaced by Mr. C. William Daniel, who had succeeded him as President of Shell Canada Limited. Having reached mandatory retirement age Mr. R. D. Parker will not be standing for re-election. Mr. Parker has been a highly esteemed member of the Board since 1962 and his advice and counsel will be sorely missed.

The directors and management once again welcome this opportunity of expressing their appreciation to all employees for the high level of performance maintained throughout the year.

On behalf of the Board of Directors

R. J. Waldon

President

TANKAGE: (thousands of barrels)	CANADA	UNITED STATES	TOTAL
Edmonton	4,645		
Stony Beach	66		
Regina	580		
Cromer	1,006		
Gretna	280		
Clearbrook		474	
Superior		4,584	
Griffith		1,985	
Sarnia	1,650		
Westover	376		
	8,603	7,043	15,646

PIPE LINE MILEAGE Size	CANADA	UNITED STATES	TOTAL
12 inch	66	26	92
16	397	—	397
18	39	324	363
20	797	12	809
24	772	—	772
26	2	324	326
30	14	919	933
34	774	790	1,564
48	225	105	330
Total Miles of Main Line Pipe	3,086	2,500	5,586

INTERPROVINCIAL PIPE LINE LIMIT

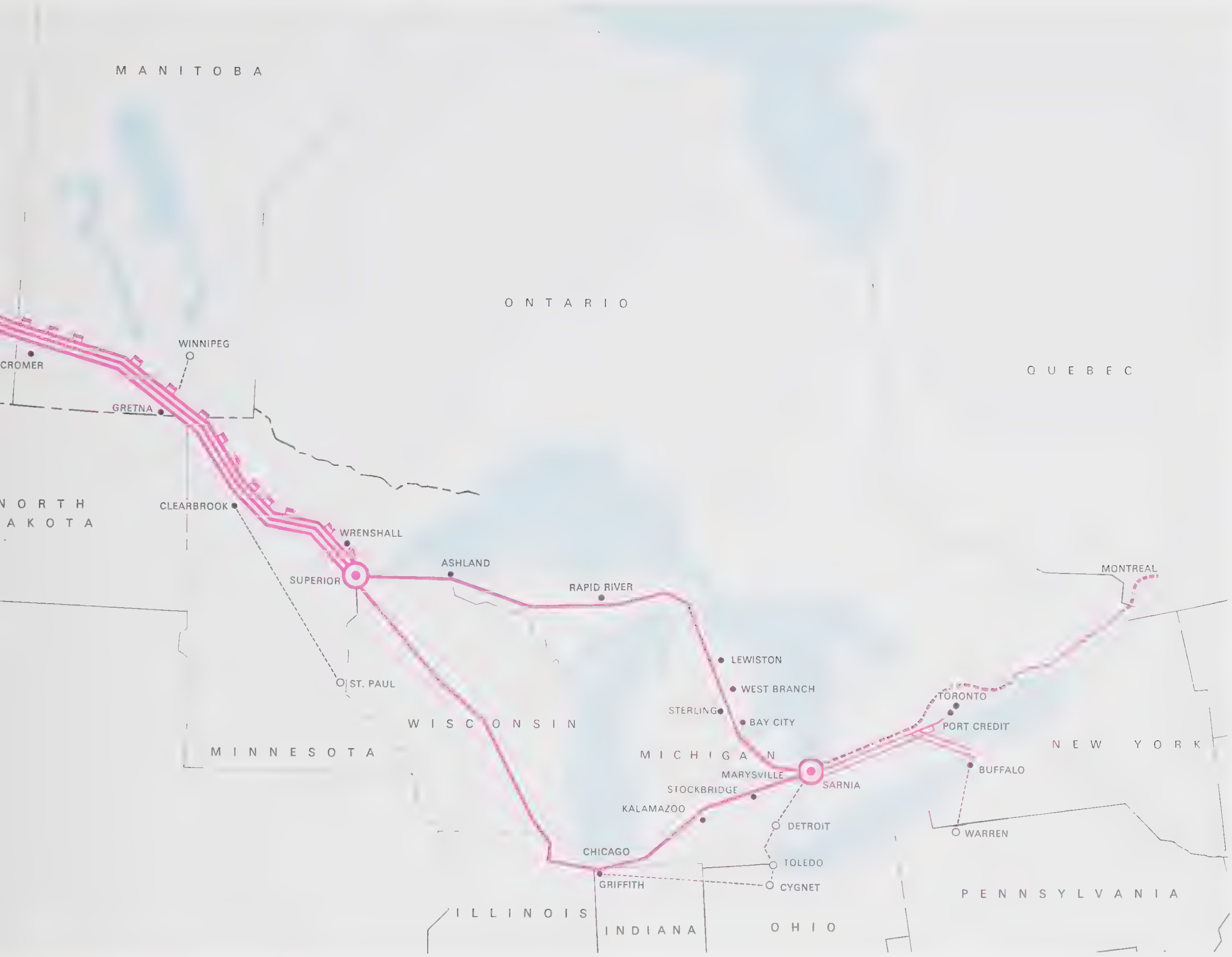
and its United States Subsidiary

LAKEHEAD PIPE LINE COMPANY, I

MONTREAL EXTENSION:

Pipe Line Mileage	520
Initial Capacity (b/d)	350,000
Size of Pipe	30"
Line Fill in Barrels	2,300,000
Number of Pump Stations	5
Installed Horsepower—Electric	22,500
Montreal Area Refining Capacity	600,000 b/d

ANNUAL AVERAGE PHYSICAL CAPACITY LINE SECTION	THOUSANDS OF BARRELS PER DAY 1975
Edmonton-Regina	1,513
Regina-Cromer	1,466
Cromer-Gretna	1,555
Gretna-Superior	1,555
Superior-Sarnia via Straits of Mackinac	570
Superior-Chicago	740
Chicago-Sarnia	375
Sarnia-Port Credit	470
Westover-Buffalo	160



The Pipe Line Transportation System

(as at December 31, 1974)

	CANADA	UNITED STATES	TOTAL
Miles of Right-of-Way	1,007	1,740	2,747
Number of Pumping Stations	29	38	67
Installed Horsepower—diesel	37,920	96,335	134,255
—electric	485,350	344,250	829,600
—total	523,270	440,585	963,855
Line Fill in Barrels (provided by shippers)	11,534,000	11,591,000	23,125,000
Separate Streams Transported			38

Consolidated Statement of Earnings

(in thousands of dollars except per share amounts)

	Year ended December 31	
	1974	1973
Income:		
Transportation revenue	**$192,944**	$202,831
Other income	**2,074**	2,461
	195,018	205,292
Expenses: (Note 1)		
Operating—power and fuel	**31,603**	30,699
—other	**27,870**	22,459
Property and other taxes	**11,218**	8,415
Provision for depreciation	**24,044**	21,803
Interest on long term debt	**24,724**	21,481
Foreign exchange	**(593)**	(384)
	118,866	104,473
Earnings before income taxes	**76,152**	100,819
Provision for income taxes: (Note 1)		
Current	**31,302**	38,672
Deferred	**9,822**	13,063
Deferred investment tax credits	**(557)**	1,299
	40,567	53,034
Earnings for the year	**$ 35,585**	$ 47,785
Earnings per share (Note 1)	**$ 1.39**	$ 1.87

Consolidated Statement of Retained Earnings

(in thousands of dollars except per share amounts)

	Year ended December 31	
	1974	1973
Balance at beginning of year	**$123,256**	$103,598
Earnings for the year	**35,585**	47,785
	158,841	151,383
Dividends paid—(per share: $1.20-1974; $1.10-1973)	**30,688**	28,127
Balance at end of year	**$128,153**	$123,256

Consolidated Statement of Changes in Financial Position
(in thousands of dollars)

	Year ended December 31 1974	1973
Working Capital Provided From:		
Earnings for the year	**$ 35,585**	$ 47,785
Add—Charges (credits) to earnings not affecting working capital:		
Depreciation	**24,044**	21,803
Deferred income taxes	**9,822**	13,063
Deferred investment tax credits	**(557)**	1,299
Other	**299**	280
Provided from operations	**69,193**	84,230
Long term debt:		
Debentures issued by—Interprovincial Pipe Line Limited	—	50,000
Bank loan—Lakehead Pipe Line Company, Inc.	—	16,018
Capital stock issued	—	832
Other transactions	**112**	83
	69,305	151,163
Working Capital Expended For:		
Dividends	**30,688**	28,127
Additions to pipe line transportation system	**31,192**	94,056
Long term debt retired or included in current liabilities	**22,120**	32,286
Cost of issuing long term debt	—	787
	84,000	155,256
Change in Working Capital	**(14,695)**	(4,093)
Working Capital (Deficit) at Beginning of Year	**(4,800)**	(707)
Working Capital (Deficit) at End of Year	**$(19,495)**	$ (4,800)

Consolidated Balance Sheet
(in thousands of dollars)

ASSETS

	December 31 1974	1973
Current Assets:		
Cash	**$ 392**	$ 975
Term deposits with Canadian chartered banks	—	2,959
Short term investments, at cost which is equivalent to market	**3,407**	13,784
Accounts receivable—		
Transportation charges	**18,345**	14,998
Other	**552**	837
Inventory of materials and supplies, at cost	**4,274**	3,063
Prepaid expenses	**678**	807
	27,648	37,423
Deferred Charges:		
Unamortized discount and expense on long term debt (Note 1)	**3,651**	3,899
Other	**590**	592
	4,241	4,491
Pipe Line Transportation System, at cost		
(Notes 1 and 2)	**828,725**	801,416
Less—Accumulated depreciation	**243,392**	223,070
	585,333	578,346
	$617,222	$620,260

Approved on Behalf of the Board:

W. H. REA, *Director*

D. G. WALDON, *Director*

Auditors' Report

To the Shareholders of
INTERPROVINCIAL PIPE LINE LIMITED:

We have examined the consolidated balance sheet of Interprovincial Pipe Line Limited and subsidiary companies as at December 31, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

LIABILITIES

	December 31 1974	1973
Current Liabilities:		
Bank notes payable	$ 2,800	$ —
Accounts payable	8,994	10,133
Interest accrued	4,113	4,073
Income and other taxes	11,730	14,408
Current portion of long term debt	19,506	13,609
	47,143	42,223
Long Term Debt (Note 3)	293,754	315,874
Deferred Income Taxes (Note 1)	89,371	79,549
Deferred Investment Tax Credits (Note 1)	10,931	11,488

SHAREHOLDERS' EQUITY

Capital Stock (Note 4):		
Authorized—$100,000,000 divided into 100,000,000 shares, par value $1 each		
Issued—1974—25,573,335 shares	25,573	
1973—25,573,310 shares		25,573
Contributed Surplus—premium on shares (Note 4)	22,297	22,297
Retained Earnings (Note 1)	128,153	123,256
	176,023	171,126
	$617,222	$620,260

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta
February 6, 1975

PRICE WATERHOUSE & CO.
Chartered Accountants

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

Principles of Consolidation

The consolidated financial statements include the accounts of Interprovincial Pipe Line Limited and its wholly-owned subsidiaries. These are Interprovincial Pipe Line Patrol Company Limited in Canada and Lakehead Pipe Line Company, Inc., and its subsidiary, Pipe Line Service Company, Inc. in the United States.

Earnings of Lakehead are subject to a 15% U.S. withholding tax when paid as dividends to Interprovincial. It has not been considered necessary to provide for this tax on Lakehead's retained earnings of $48,777,000 U.S. at December 31, 1974 because they have been reinvested in that company.

Foreign Exchange

United States dollar amounts have been translated into Canadian dollars on the following bases:

Current assets and liabilities—at the rate of exchange December 31;

Other assets and liabilities—at historical rates of exchange except for accumulated depreciation which is translated on the basis of equivalent Canadian dollar cost of the related fixed assets;

Income and expenses—at monthly rates of exchange except provision for depreciation which is translated on the same basis as the related fixed assets.

Net gains arising from the foregoing methods are shown on the Consolidated Statement of Earnings as Foreign exchange.

Discount and Expense on Long Term Debt

The balance of unamortized discount and expense is being amortized on the straight-line method over the life of the debt with adjustments as debt is retired. The amortization charge amounted to $248,000 for 1974 and $230,000 for 1973.

Pipe Line Transportation System and Depreciation

Expenditures for system expansion and major renewals and betterments are capitalized whereas maintenance and repair costs are charged to operating expenses as incurred.

The companies capitalize interest during the construction period on funds borrowed for additions to the pipe line transportation system. No interest was capitalized during 1974 and $1,592,000 was capitalized in 1973.

The companies provide for depreciation of fixed assets on the straight-line method, at annual rates which will amortize the cost of depreciable properties over their estimated service lives, after taking into account possible salvage values. The rate of depreciation on the pipe line transportation system averages approximately 3%.

When fixed assets are retired or otherwise disposed of, the cost and accumulated depreciation are cleared from the related accounts and any resultant profit or loss is credited or charged to

accumulated depreciation, except for extraordinary disposals for which the profit or loss is included in earnings.

Deferred Income Taxes

Under Canadian and United States income tax regulations depreciation deducted for tax purposes may differ from the amount recorded in the accounts; also, during construction periods interest capitalized and, in the United States, sales taxes capitalized, may be claimed for tax purposes in the year incurred. The companies are using the maximum deductions permitted for tax purposes which result in deferment of taxes to future years when amounts deductible will be less than the depreciation recorded in the accounts.

Deferred Investment Tax Credits

The United States subsidiary companies are allowed credits against income taxes payable of a specified percentage of the cost of most depreciable assets acquired and placed into service. These credits have been deferred and are being taken into earnings over the life of the related assets.

Earnings per Share

Earnings per share are computed on the weighted average number of shares outstanding during the year. There would be no material dilution of earnings per share if the share purchase warrants and stock options had been exercised during the year.

Pension Plans

The companies have pension plans which cover substantially all employees and accrued pension costs are funded. The principal amount of the unfunded liability for past service benefits was approximately $4,900,000 at December 31, 1973. This amount, together with interest, will be charged to earnings over a period of up to eighteen years. Total costs of the plans in 1974 and 1973 amounted to $1,169,000 and $1,099,000 respectively of which $416,000 and $412,000 respectively were applicable to past service benefits. Pension fund assets exceed the actuarially computed value of the vested portion of the benefits.

2. Pipe Line Transportation System: Accumulated Depreciation:

The pipe line transportation system and accumulated depreciation by major classes are as follows:

	Investment, at cost	Accumulated depreciation	Net investment December 31	
	December 31, 1974		1974	1973
	(in thousands of dollars)			
Land	$ 2,352	$ —	$ 2,352	$ 2,274
Rights-of-way	13,576	3,793	9,783	9,380
Pipe line	567,719	180,909	386,810	400,266
Pumping equipment, buildings and tanks	215,204	58,690	156,514	145,596
Construction in progress	29,874	—	29,874	20,830
	$828,725	$243,392	$585,333	$578,346

Interprovincial has made application to the National Energy Board to construct a 520 mile, 30-inch pipe line extension from Sarnia to Montreal. The project is subject to (1) finalization of an agreement whereby the Government of Canada will pay the deficiency if operating revenue in respect to the extension is not sufficient to meet the fixed and variable costs of the extension and (2) approval by the National Energy Board. Under the terms of the proposed agreement Interprovincial will grant an option to the Government to purchase the extension at its net book value plus related expenses but this option is exercisable only if a deficiency payment has been made or it is agreed that a deficiency will occur. The extension, proposed for completion by the end of 1976, is currently estimated to cost $185,000,000 of which preliminary costs amounting to $6,400,000 have been incurred to December 31, 1974 and are included in Construction in progress. The extension will be financed by additional borrowings, details of which have not yet been determined.

It is estimated that other 1975 capital expenditures will amount to approximately $21,000,000 and will be financed by funds generated within the companies.

3. Long Term Debt:

	Outstanding December 31 1974	1973
	(in thousands of dollars)	
Interprovincial Pipe Line Limited—		
First Mortgage and Collateral Trust Bonds—		
Series E—5½% due April 1, 1985	$ 8,756	$ 9,282
Sinking Fund Debentures (unsecured)—		
Series A—6% due November 1, 1986	26,600	28,000
B—9⅜% due December 1, 1990	57,600	60,000
C—8⅛% due May 1, 1993	50,000	50,000
Bank Loan (unsecured)—		
Repayable in 1976; interest at ¾% above prime rate, maximum charge 8½%	10,000	10,000
Lakehead Pipe Line Company, Inc.—		
Sinking Fund Debentures (guaranteed by Interprovincial)—		
Series A—6½% due August 1, 1992 ($28,350,000 U.S.)	30,522	32,298
B—7⅛% due April 15, 1993 ($75,000,000 U.S.)	80,754	80,754
C—7.60% due June 15, 1997 ($30,000,000 U.S.)	29,522	29,522
Bank Loan (guaranteed by Interprovincial)—		
Repayable in 1975; interest at 1% above prime rate	—	16,018
	$293,754	$315,874

The First Mortgage and Collateral Trust Bonds of Interprovincial are secured by charges on all its assets; no further Bonds may be issued.

Repayment of the bank loan may be accelerated at any time without penalty.

Principal repayments required on Long Term Debt for the years 1976 through 1979 are $20,625,000, $12,699,000, $12,699,000 and $12,849,000 respectively.

Long Term Debt payable in U.S. currency translated at historical rates of exchange amounts to $140,798,000. At the December 31, 1974 rate of exchange this debt would be $132,177,000.

4. Capital Stock:

At December 31, 1974 share purchase warrants were outstanding which entitled the holders to purchase 818,050 shares of capital stock of the company for $17 per share on or before November 1, 1976. During 1974 warrants to purchase 25 shares were exercised for a total cash consideration of $425, of which $25 was credited to Capital stock and the remainder credited to Contributed surplus.

Under the Employee Incentive Stock Option Plan options may be granted to full-time employees to purchase shares of capital stock at not less than 90% of market value of the shares on the day that an option is granted. During 1974 no options were exercised and no options were granted. At December 31, 1974 options were outstanding on a total of 117,525 shares at prices ranging from $17 to $25.80 per share exercisable over varying periods up to April 1981.

Outstanding options include 25,500 shares to officers, including the one director who is a full-time employee. At year end 52,500 shares were available for future grants.

5. Remuneration of Directors and Officers:

In 1974 aggregate remuneration of eleven directors, one of whom was not paid as a director, was $48,000. Aggregate remuneration of five officers, only four of whom were paid as officers, was $196,000. Two officers were also directors. None of the directors or officers received remuneration from any of the company's subsidiaries.

Interprovincial Pipe Line Limited
and subsidiary companies

Ten Year Review

Financial (in thousands of dollars except per share amounts)

	1974
Income—Transportation revenue	$ 192,944
—Other income	$ 2,074
Expenses—Operating—power and fuel	$ 31,603
—other	$ 27,277
—Property and other taxes	$ 11,218
—Depreciation	$ 24,044
—Interest	$ 24,724
Income taxes	$ 40,567
Earnings	$ 35,585
per share, weighted average	$ 1.39
Dividends paid	$ 30,688
per share	$ 1.20
percentage of earnings	86%
Working capital (deficit)	$ (19,495)
Funds provided from operations	$ 69,193
Additions to pipe line system	$ 31,192
Investment in pipe line system (cost)	$ 828,725
Long term debt	$ 293,754

Statistical

	1974
Shares outstanding at year end (thousands)	25,573
Percentage of shares registered in Canada	94%
Shareholders at year end	20,423
Number of employees at year end	751
Investment in pipe line system, per employee	$1,103,000
Receipts (b/d)—Alberta	1,059,695
—Saskatchewan	192,951
—Manitoba	13,193
—Ontario	842
—United States	42,241
	1,308,922
Deliveries (b/d)	
Canada—Western Canada	155,755
—Ontario	524,805
	680,560
United States—Minnesota-Wisconsin	169,435
—Illinois-Indiana	164,324
—Michigan-Ohio	165,119
—New York-Pennsylvania	127,639
	626,517
	1,307,077
Barrel miles (millions)	668,864
Average mileage per barrel delivered	1,402
Average transportation revenue—per barrel	40.4¢
—per 100 barrel miles	2.88¢

1973	1972	1971	1970	1969	1968	1967	1966	1965
202,831	164,207	144,393	133,707	114,465	105,532	92,893	87,787	79,718
2,461	1,689	2,871	1,643	994	1,049	1,548	1,219	574
30,699	18,735	13,213	11,186	11,053	12,514	9,432	7,930	6,371
22,075	18,088	17,176	16,164	14,841	13,282	13,271	11,757	9,892
8,415	9,612	8,814	9,643	8,338	5,789	4,636	4,292	4,098
21,803	19,674	18,115	17,519	16,070	13,677	12,683	12,346	10,431
21,481	19,010	18,890	18,810	13,898	8,608	5,697	4,274	4,006
53,034	40,693	35,416	32,531	26,833	29,377	26,197	25,884	25,157
47,785	40,084	35,640	29,497	24,426	23,334	22,525	22,523	20,337
1.87	1.57	1.40	1.16	0.96	0.92	0.89	0.89	0.80
28,127	23,976	21,892	20,352	18,316	18,316	18,315	18,314	17,551
1.10	0.94	0.86	0.80	0.72	0.72	0.72	0.72	0.69
59%	60%	61%	69%	75%	78%	81%	81%	86%
(4,800)	(707)	(818)	31,848	(10,490)	(14,122)	(10,277)	24,409	(12,177)
84,230	70,510	61,719	52,825	49,137	45,864	39,053	35,286	32,648
94,056	66,022	44,783	17,795	70,595	114,189	76,721	4,513	11,172
801,416	708,688	646,172	602,312	587,340	518,799	405,657	334,507	330,676
315,874	282,142	264,279	292,829	265,184	223,470	141,191	119,087	93,663
25,573	25,527	25,476	25,443	25,439	25,439	25,439	25,436	25,436
94%	94%	93%	93%	92%	91%	90%	89%	88%
19,621	18,864	19,576	21,066	21,996	21,486	18,321	16,290	15,521
730	706	677	641	603	562	621	599	589
1,098,000	1,004,000	954,000	940,000	974,000	923,000	653,000	558,000	561,000
1,134,985	877,474	743,411	659,382	542,093	475,437	386,331	340,263	313,923
217,423	217,768	217,034	224,890	225,755	236,613	239,466	245,435	228,777
14,216	14,931	15,575	16,452	17,489	17,524	15,863	14,812	14,110
4,134	3,196	2,751	817	550	205	—	—	—
11,123	8,440	3,228	2,579	—	—	3,502	6,836	4,903
1,381,881	1,121,809	981,999	904,120	785,887	729,779	645,162	607,346	561,713
147,033	115,939	116,163	116,386	111,504	106,832	107,050	106,817	106,118
467,893	414,305	390,798	380,570	351,270	338,624	317,969	320,145	308,226
614,926	530,244	506,961	496,956	462,774	445,456	425,019	426,962	414,344
195,467	175,534	159,142	142,686	135,451	116,196	97,371	94,054	85,318
229,302	145,397	89,309	49,836	—	—	—	—	—
200,978	142,973	120,098	121,822	105,540	96,847	60,344	44,159	31,862
136,742	121,365	101,840	89,619	72,206	58,228	54,556	39,769	26,521
762,489	585,269	470,389	403,963	313,197	271,271	212,271	177,982	143,701
1,377,415	1,115,513	977,350	900,919	775,971	716,727	637,290	604,944	558,045
707,037	573,456	488,862	444,318	366,287	337,978	289,691	267,354	241,264
1,406	1,405	1,370	1,351	1,293	1,288	1,245	1,211	1,184
40.3¢	40.2¢	40.5¢	40.7¢	40.4¢	40.2¢	39.9¢	39.8¢	39.1¢
2.87¢	2.86¢	2.95¢	3.01¢	3.13¢	3.12¢	3.21¢	3.28¢	3.30¢

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Interprovincial Pipe Line Limited

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Unaudited, $000's omitted)

	Six months ended June 30	
	1974	[illegible]
WORKING CAPITAL PROVIDED FROM:		
Earnings for the period	$18,740	$24,243
Depreciation	11,857	10,696
Deferred income taxes	4,954	6,706
Debentures issued	—	50,000
Other transactions	37	(315)
	$35,588	$91,330
WORKING CAPITAL EXPENDED FOR:		
Dividends paid	$15,344	$12,784
Capital expenditures	10,712	36,988
Long term debt reductions	8,972	27,581
	$35,028	[illegible]
Change in Working Capital	$ 560	$13,977
Working Capital—January 1	$ (4,800)	$ (707)
Working Capital—June 30	$ (4,240)	$13,270

DELIVERIES (barrels per day)

	1974	1973
First Quarter	1,339,580	1,435,480
Second Quarter	1,330,697	1,349,836
Third Quarter	—	1,344,704
Fourth Quarter	—	1,380,603

Quarterly Report for six months ended June 30, 1974

PRINTED IN CANADA

Interprovincial Pipe Line Limited

and subsidiary companies

REPORT FOR SIX MONTHS ENDED JUNE 30, 1974

TO THE SHAREHOLDERS:

Throughput

Deliveries of crude oil, natural gas liquids and refined products averaged 1,335,114 barrels per day during the first six months of 1974—some 4% less than in the corresponding period in 1973. Deliveries in Ontario include the 4.2 million barrels of crude oil that were transshipped to Montreal and Quebec City by lake tanker during the second quarter.

DELIVERIES (barrels per day)	First six months 1974	1973
Western Canada	151,150	134,742
United States	665,224	812,211
Ontario	518,740	445,468
	1,335,114	1,392,421
BARREL MILES (millions)	343,851	352,128

Earnings

Due to the lower throughputs, transportation revenue was $5.2 million less than in 1973 while expenses were $7.4 million higher. In addition to higher salaries and wages the increase in Other Operating Expenses is attributable to higher than normal oil losses and the cost of electronically inspecting (Line-A-Log) over 1,000 miles of pipe line and reconditioning certain sections. As a result earnings for the six month period declined to 73¢ per share from 95¢ earned in the first half of 1973.

Tariffs

Effective September 1, 1974 separate tariffs are being established for Canadian operations (Interprovincial) and United States operations (Lakehead Pipe Line Company, Inc.) and to cope with the rapidly rising costs—particularly power and fuel in the United States—Lakehead is increasing its transportation charges by amounts up to 4¢ per barrel. Because all oil delivered in Ontario passes through the entire Lakehead system, the increase will apply to deliveries in Ontario, as well as consignments to the United States; but there will be no change in rates to delivery points in Western Canada. This is the first time the company has increased its tariffs since the inception of operations in 1950 and there have been several reductions. The new joint rates from Edmonton to the principal delivery points will be: Chicago 48¢, Sarnia 51¢ and Toronto 54¢ per barrel.

Construction

Construction of the refined products terminal at Superior, Wisconsin has been delayed pending assessment by State and Federal authorities of the impact on the environment. Approval has now been received from the State of Wisconsin but a public hearing will be required by the Federal authorities. Assuming approval is forthcoming in the reasonably near future the start of operations is now anticipated to be late 1975.

The installation of sectionalizing valves and other safety improvements on Line 2 from Edmonton to Superior, is being reviewed after receipt of proposed Government regulations respecting High Vapour Pressure pipe lines. Plans for this line also included increasing its capacity by incorporating into it 330 miles of idle 34-inch pipe.

The equipment has been ordered and contracts awarded for the additional horsepower required to increase the capacity of the 30-inch line from Chicago to Sarnia.

Montreal Extension

The hearing before the National Energy Board on the company's application to construct a 30-inch extension of the system from Sarnia to Montreal, commenced on May 14 and after 6 days was adjourned to permit further study of alternate routes in the Province of Quebec. Meetings have been held with the Quebec and Ontario authorities which have resulted in agreement in principal on a mutually acceptable alternate route which adds a further 10 miles to the overall length. Due to the time required to prepare the necessary environmental impact statements and three weeks advertising, it is unlikely the hearing will resume before September 17.

Because of the added length and escalating material and labour costs, the extension is now estimated at $160 million rather than $140 million. This combined with increased interest and operating costs, will require a higher additional tariff from Sarnia than the 28¢ per barrel indicated initially.

Dividend

On July 18 a quarterly dividend of 30¢ per share was declared payable September 3 to shareholders of record August 12, 1974.

Toronto, Ontario
August 2, 1974

D. G. WALDON
President

CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited, $000's omitted)

	Six months ended June 30 1974	1973
INCOME		
Transportation revenue	$96,528	$101,727
Other income	1,015	1,079
	$97,543	$102,806
EXPENSES		
Operating—power and fuel	$16,278	$ 15,166
—other	13,161	9,966
Property and other taxes	5,435	5,376
Depreciation	11,857	10,696
Interest	12,362	10,530
	$59,093	$ 51,734
Earnings before income taxes	$38,450	$ 51,072
Provision for income taxes	19,170	26,829
Earnings for the period	$18,740	$ 24,243
Earnings per share	73¢	95¢

INTERPROVINCIAL PIPE LINE LIMITED

NEWS RELEASE

0.L.

January 16, 1974

Following the statement made by The Honourable Donald MacDonald, Minister of Energy, Mines and Resources, earlier today, Interprovincial Pipe Line Limited confirmed that it is actively working on a specific route for the proposed extension of its pipe line system from Sarnia, Ontario to Montreal, Quebec.

The company's present pipe line system extends some 2,000 miles from Edmonton, Alberta, across the Canadian Prairies, through the Great Lakes region of the United States to Sarnia, Ontario, and on to the Toronto area, with a lateral line to Buffalo, New York.

The proposed extension will be approximately 520 miles in length and plans are to use 30-inch pipe which when fully powered with ten pumping stations would have a capacity of some 600,000 barrels per day. Initially, however, only five pumping stations will be installed resulting in a capacity of roughly 350,000 b/d. Initial throughput is expected to be 250,000 b/d which is approximately half of the present Montreal refining capacity.

The specific route that the company is working on is its own right-of-way from Sarnia to near Burlington, Ontario; around Toronto as far as Pickering on Ontario Hydro's Finch Avenue right-of-way; and on to Montreal generally paralleling the TransCanada natural gas line and Trans Northern's products pipe line. Approaching Montreal it is hoped that it will be possible to use certain of the Province of Quebec's road allowances

and some of Quebec Hydro's right-of-way - but the proper authorities have not been approached as yet.

From Pickering on, the required right-of-way will involve new easements from each and every landowner, which will take months to acquire. It is hoped that the pipe line corridor principle will apply, however, and the National Energy Board will approve such a route.

An application to the N.E.B. in respect of the proposed extension is now being prepared and should be ready for filing towards the middle of March. In the meantime, the pipe has been ordered and work on detailed pumping station design and acquisition of right-of-way is under way.

Three major river crossing will be involved, namely the Ottawa River, and two crossings of branches of the St. Lawrence River in the Montreal area. It is hoped that work on these crossings and station construction can be commenced in the fall of 1974 with completion of the entire project by the end of 1975.

The 520-mile extension itself is estimated to cost between $130 and $150 million. In addition an undetermined amount of expansion of the system between Edmonton and Sarnia will be required. Depending on the extent shipments to Montreal represent new volumes to Interprovincial, this could cost upwards to $300 million. The first step is estimated at $40 million.

Bechtel Canada Limited has been appointed manager of the project under company supervision and most of the station design work will be done by Tottrup Engineering Limited working out of the company's Edmonton office.

If approved, the extension will be financed in Canada and, in accordance with the company's established practice, all material and equipment

will be purchased in Canada where available, and all construction contracts will be awarded to Canadian contractors.

D. G. WALDON
PRESIDENT

Interprovincial Pipe Line Limited
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